

TOWNSHIP CODE AUTHORITY OF MIDLAND COUNTY

Midland County, Michigan

FINANCIAL STATEMENTS
MARCH 31, 2005

TOWNSHIP CODE AUTHORITY OF MIDLAND COUNTY

BOARD OF DIRECTORS

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Member

Mike Glynn
Member

Jean Shauger
Member

Scott Atton
Member

Vicky Kraus
Office Professional

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Dale L. Stanton
Certified Public Accountant

To the Authority Board
Township Code Authority of Midland County
Midland, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Township Code Authority of Midland County, Michigan, as of March 31, 2005, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Township Code Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Township Code Authority of Midland County as of March 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule is not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township Code Authority of Midland County's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material aspects in relation to the financial statements taken as a whole.

3278 E. Monroe Road
Midland, MI 48642



(989) 837-0814
dstanton@tm.net

To the Authority Board
Township Code Authority of Midland County
Midland, Michigan

As described in Note 12, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements as of October 1, 2003.

Dale L. Stanton
Certified Public Accountant

June 24, 2005

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Township Code Authority of Midland County
Management Discussion and Analysis
For the year ended March 31, 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

Our discussion in the MD & A represents our best estimate of the trends we know about, the trends we anticipate, and the trends that we think are relevant to our future operations. However, actual results may be different from our estimates.

The Authority as a Whole

In the 2004-2005 fiscal year, the Township Code Authority of Midland County has continued to fulfill its mission through working with partnerships with local governments.

The Authority's major funding source is charges for services, primarily through permit fees and inspections. Overall, the Authority's unrestricted net assets declined 14.9% from a year ago. The March 31, 2005 unrestricted net asset balance is at 7.8% of the current year expenditure level.

Financial Highlights

Our financial status remained stable over the last year. Net assets at March 31, 2005, totaled \$7,308 for governmental activities. Overall revenues were \$92,920 from governmental activities. Governmental activities had a \$1,281 decrease in net assets.

We did not incur any new debt.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating. To assess overall health of the entity you may also have to consider additional factors such as tax base and demographic changes, facility conditions and personnel changes. All of the activities of the Authority are reported as governmental activities in a Special Revenue Fund.

Financial Analysis of the Authority as a Whole

The revenue for the Authority remained consistent with prior fiscal years. The cash position for the governmental activities remain strong.

Township Code Authority of Midland County
Management Discussion and Analysis
For the year ended March 31, 2005

In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year.

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Current Assets	\$ 12.9	\$ 11.6
Noncurrent Assets	<u>0.0</u>	<u>0.0</u>
Total Assets	<u>12.9</u>	<u>11.6</u>
Long-term Liabilities	0.3	0.0
Other Liabilities	<u>5.3</u>	<u>2.7</u>
Total Liabilities	<u>5.6</u>	<u>2.7</u>
Net Assets		
Invested in Capital Assets – Net of Debt	0.0	0.0
Unrestricted	<u>7.3</u>	<u>8.9</u>
Total Net Assets	<u>\$ 7.3</u>	<u>\$ 8.9</u>

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year.

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program Revenues						
Charges for Services	\$87.8	\$106.1	\$ 0.0	\$ 0.0	\$87.8	\$106.1
Contract Registration Services	4.8	2.9	0.0	0.0	4.8	2.9
General Revenues						
Unrestricted Investment Earnings	0.2	0.2	0.0	0.0	0.2	0.2
Other Revenue	<u>0.1</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.2</u>
Total Revenues	<u>92.9</u>	<u>109.4</u>	<u>0.0</u>	<u>0.0</u>	<u>92.9</u>	<u>109.4</u>
Program Expenses						
Governmental Activities	<u>94.2</u>	<u>102.2</u>	<u>0.0</u>	<u>0.0</u>	<u>94.2</u>	<u>102.2</u>
Total Expenses	<u>94.2</u>	<u>102.2</u>	<u>0.0</u>	<u>0.0</u>	<u>94.2</u>	<u>102.2</u>
Change in Net Assets	<u>\$ (1.3)</u>	<u>\$ 7.2</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (1.3)</u>	<u>\$ 7.2</u>

Township Code Authority of Midland County
Management Discussion and Analysis
For the year ended March 31, 2005

Financial Analysis of the Authority's Fund

The Authority had Special Revenue Fund expenses in excess of revenues for the year in the amount of \$1,281.

While the Authority's revenues remain healthy, there is some concern related to the ability of revenue to cover the current spending levels if permit fees and inspections slow down. .

Governmental Activities

The Authority is funded through a variety of sources. This includes charges for services for building, electrical, plumbing, and mechanical permits and inspections. The primary expenses for the Authority are related to contracted services paid to inspectors.

Business-Type Activities

The Authority does not have any Business-Type Activities.

The Authority's Funds

The Authority maintains one fund, which is described in the footnotes to these financial statements. There are no component units for the Authority.

General Fund Budgetary Highlights

For the year ended March 31, 2005, the Authority did not adopt a budget as required by Michigan Compiled Laws. .

Capital Asset and Debt Administration

As of March 31, 2005, the Authority did not have a fixed asset policy in place. The prior year financial statements did not display a General Fixed Asset Group of Accounts because it was believed that the balance was immaterial. Additionally, the Authority does not incur debt for operational or capital purposes.

Economic Factors and Next Year's Budget

The Authority will continue to work on a contractual basis with the various Townships that are member units. It is anticipated that revenues will remain constant. Expenditures are also anticipated to be at a level constant with the 2004-2005 fiscal year.

Township Code Authority of Midland County
Management Discussion and Analysis
For the year ended March 31, 2005

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority Administrator or the Authority Board.

Township Code Authority of Midland County
Governmental Fund Balance Sheet/Statement of Net Assets
March 31, 2005

	Special Revenue Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets			
Cash and Cash Equivalents	\$ 11,534	\$ -	\$ 11,534
Prepaid Expenses	1,402	-	1,402
Fixed Assets	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 12,936</u>	<u>-</u>	<u>12,936</u>
Liabilities			
Accounts Payable	\$ 457	-	457
Accrued Liabilities	2,972	-	2,972
Deferred Revenue	1,935	-	1,935
Long-Term Liabilities			
Accumulated Employee Benefits	-	264	264
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>5,364</u>	<u>264</u>	<u>5,628</u>
Fund Balance/Net Assets			
Fund Balances - Unreserved			
Undesignated	7,572	(7,572)	-
	<u> </u>	<u> </u>	<u> </u>
Total Fund Equities	<u>7,572</u>	<u>(7,572)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 12,936</u>		
Net Assets			
Restricted		-	-
Unrestricted		7,308	7,308
		<u> </u>	<u> </u>
Total Net Assets		<u>\$ 7,308</u>	<u>\$ 7,308</u>

The accompanying notes are an integral part of this financial statement.

Township Code Authority of Midland County
Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities
For the Year Ending March 31, 2005

	Special Revenue Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenue			
Charges for Services - Permits	\$ 87,861	\$ -	\$ 87,861
Contract Registration Fees	4,755	-	4,755
Interest Revenue	177	-	177
Other Revenue	128	-	128
Total Revenue	<u>92,921</u>	<u>-</u>	<u>92,920</u>
Expenditures			
Wages	18,872	-	18,872
Payroll Taxes	300	-	300
Insurance	1,438	-	1,438
Pension	682	-	682
Office Supplies	858	-	858
Postage & Delivery	333	-	333
Accounting & Audit Expense	1,150	-	1,150
Other Professional Services	58,171	-	58,171
Telephone	2,773	-	2,773
Printing & Publishing	333	-	333
Building Rent Expense	7,122	-	7,122
Miscellaneous Expense	-	-	-
Permit Refunds	2,110	-	2,110
Insurance Expense	60	-	60
Total Expenditures	<u>94,202</u>	<u>-</u>	<u>94,201</u>
Excess of Revenue Over (Under) Expenditures	(1,281)	-	(1,281)
Fund Balance - Beginning of Year	<u>8,853</u>	<u>(264)</u>	<u>8,589</u>
Fund Balance - End of Year	<u><u>\$ 7,572</u></u>	<u><u>\$ (264)</u></u>	<u><u>\$ 7,308</u></u>

The accompanying notes are an integral part of this financial statement

Township Code Authority of Midland County
Notes to Financial Statements
March 31, 2005

Note 1: Description of Conservation Authority Operations

The Midland County Townships of Mills, Hope, Edenville, Lee, Jasper, and Larkin comprise the Township Code Authority of Midland County. An Interlocal Agreement (Michigan Urban Cooperation Act of 1967) has been adopted and bound by agreements signed by each local unit of government. The Authority was established on May 1, 1996 for the purpose of administering and enforcing certain construction codes and other ordinances as adopted by each of the participating units of government; to hire competent inspectors and other personnel necessary to accomplish the forgoing; to establish appropriate policies and rules for the township code enforcement program; to arrange for a convenient location where records can be maintained and permits and inspections may be obtained; and to maintain books of account for all receipts and expenditures.

Each participating unit of government shall select a representative to the Township Code Enforcement Board. Representatives shall elect four (4) individuals to serve as Director, Vice-Director, Treasurer and Secretary, with the remaining representatives to serve as Members. The representative will remain on the Board until replaced by the represented unit of government.

A. The Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" certain other governmental organizations are not considered to be part of the Authority entity for financial reporting purposes. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the potential component unit data was not included. The Authority has determined that no other outside organization meets the above criteria and, therefore, no other entity has been included as a component unit in the Authority's financial statements.

Note 2: Summary of Significant Accounting Policies

The accounting policies of the Township Code Authority of Midland County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies.

Township Code Authority of Midland County
Notes to Financial Statements
March 31, 2005

A. Basis of Presentation

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of a primary government. Governmental activities, normally supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenue.

The Authority reports the following major governmental fund:

Governmental Fund Types:

Special Revenue Fund – The Special Revenue Fund is used to account for the revenue sources that are legally restricted to expenditures for specific purposes. The Township Code Authority has one special revenue fund which accounts for all the activity of the Authority.

B. Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus in the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Township Code Authority of Midland County
Notes to Financial Statements
March 31, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the year in which the liability is incurred, provided the liability normally would be liquidated with expendable available financial resources.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Authority has not elected to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) Charges to customers for goods, services, or privileges provided; (2) Operating grants and contributions; and (3) Capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

C. Cash, Cash Equivalents, and Investments:

Cash on hand, demand deposits, certificates of deposit, savings accounts, and all short-term investments that are highly liquid and have an original maturity of three months or less are considered to be cash equivalents. Investments, if any, are presented at fair value.

D. Receivables:

Receivables are recognized for all significant amounts due to the Authority. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amounts would be immaterial.

E. Inventories and Prepaid Costs:

Inventories are valued at cost, on the first-in, first-out basis. Inventories of expendable supplies have not been recorded and the amount of any such inventories is not considered material. The cost of such inventories has been stated as an expenditure at the time of purchase. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Township Code Authority of Midland County
Notes to Financial Statements
March 31, 2005

F. Due To and Due From Other Entities:

The Authority's primary source of revenue is from charges to customers for permits and inspections. Inter-governmental revenue is at a minimum, and there were no Due To or Due From Other Entities as of March 31, 2005.

G. Fixed Assets and Depreciation:

Purchases of fixed assets for the Special Revenue Fund are recorded as expenditures at the time of purchase. Fixed Assets that are funded by governmental funds are reported on the Government Wide Statement of Net Assets. See also Note 8.

H. Long-term Debt:

Long-term liabilities to be funded by governmental funds are reported on the Government Wide Statement of Net Assets. As of March 31, 2005, the Authority had no outstanding long-term debt.

I. Accumulated Unpaid Benefits:

Employees are allowed to accumulate vacation pay. The accumulated liability has been shown in the General Long-Term Debt Group of Accounts in accordance with Governmental Accounting Standards Board's Statement No. 16 "Accounting for Compensated Absences."

J. Fund Equity:

The unreserved undesignated fund balances for governmental funds represent the amount available for budgeting future operations. Reserved fund balance for governmental funds represents that portion of fund equity, which has been legally segregated for specific purposes and/or does not constitute current available spending resources.

K. Budgets and Budgetary Accounting:

Annual operating budgets are adopted by the Township Code Authority for the Special Revenue Fund in accordance with Public Act 621 of 1978.

Township Code Authority of Midland County
Notes to Financial Statements
March 31, 2005

5. Bankers acceptances of United States banks
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan compiled laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

The Authority's deposits at March 31, 2005 are included on the balance sheet under the following classifications:

<u>Balance Sheet Classification</u>	
	<u>Cash and Cash</u>
	<u>Equivalents</u>
Deposits	\$ 10,904
Cash on Hand	630
Total	<u>\$ 11,534</u>

Deposits:

At March 31, 2005, the book value of the Authority's deposits, consisting primarily of demand deposits, was \$10,904 with a corresponding bank balance of \$12,432. Authority deposits are insured by the Federal Deposit Insurance Corporation (credit risk Category #1).

The Authority evaluates the financial institution it deposits funds with and assesses the level of risk with this institution; only institutions with an acceptable estimated risk level are used as depositories. The Authority deposits are in accordance with statutory authority.

Note 4: Post Employment Benefits

The Authority currently does not provide post employment benefits to employees.

Township Code Authority of Midland County
Notes to Financial Statements
March 31, 2005

Note 5: Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority manages this risk through policies held with external insurance companies.

Note 6: Deferred Revenue

A portion of the Authority's Deferred Revenue balance at March 31, 2005 relates to Customer Fees received before year-end for which were not inspected until after the end of the fiscal year. It is the policy of the Authority to reimburse permit fees if requested, less the applicable permit application fee.

Note 7: Accumulated Vacation and Sick Pay

The amount shown in the Statement of Net Assets is the accumulated total liability for vacation time for the Authority at March 31, 2005.

Note 8: Fixed Assets

Starting with the fiscal year ending March 31, 2005, the Authority is supposed to begin depreciating equipment not purchased with government funding over their estimated useful lives. As of March 31, 2005, the Board had not adopted a policy that addressed the capitalization threshold and the depreciation of fixed assets, so no amount is shown in these financial statements. The Authority believes that the amount of fixed assets owned is immaterial to these financial statements.

Note 9: Long-Term Debt

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended March 31, 2005:

	Balance <u>3/31/04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>3/31/05</u>
Long-Term Debt				
Accumulated compensation	\$ -	\$ 264	\$ -	\$ 264

The liability for accumulated compensation represents amounts owed to employees for accumulated vacation pay as of March 31, 2005. For the year-ended March 31, 2004, this liability was not shown in a General Long-Term Debt Group of Accounts within the Authority's financial statements. For the year-ended March 31, 2005, this liability is shown on the Government Wide Statement of Net Assets.

Township Code Authority of Midland County
Notes to Financial Statements
March 31, 2005

Using the criteria established in Governmental Accounting Standards Board Statement 16, a liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer should be accounted for in the period those services are rendered or those events take place.

Note 10: New Governmental Reporting Model

The Governmental Accounting Standards Board issued a new reporting model titled *Basic Financial Statement – and Management’s Discussion and Analysis – for State and Local Governments* in June of 1999. In accordance with Michigan Department of Agriculture guidelines, the Authority has implemented the provisions of this statement. Certain significant changes in the statement include the following:

- A management’s discussion and analysis (MD&A) section providing an analysis of the Authority’s overall financial position and results of operations.
- Financial statements prepared using a full accrual accounting for all of the Authority’s activities.

Note 11: Simplified Employee Pension Plan

The Authority contribute to the “Township Code Authority Pension Plan.” The Plan is a defined contribution plan established under Section 401(a) of the Internal Revenue Code. The employer contributes 3% of the employees’ compensation to the plan annually based on the basic annual rates of compensation in effect at the beginning of each plan year. In addition, the Authority pays pension processing and participation fees. Employees are 100% vested immediately. Any employee is eligible to participate in the plan upon attaining the age of 18.

Additional information regarding this plan can be obtained by writing to:

Capital Bank and Trust Company
P.O. Box 2226
Brea, California 92822-2226

REQUIRED SUPPLEMENTAL INFORMATION

Township Code Authority of Midland County
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ending March 31, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services - Permits	\$ -	\$ 87,861	\$ 87,861
Contract Registration Fees	-	4,755	4,755
Interest Revenue	-	177	177
Other Revenue	-	128	128
Total Revenue	-	92,920	92,920
Expenditures			
Public Safety			
Wages	-	18,872	(18,872)
Payroll Taxes	-	300	(300)
Insurance	-	1,438	(1,438)
Pension	-	682	(682)
Office Supplies	-	858	(858)
Postage & Delivery	-	333	(333)
Accounting & Audit Expense	-	1,150	(1,150)
Other Professional Services	-	58,171	(58,171)
Telephone	-	2,773	(2,773)
Printing & Publishing	-	333	(333)
Building Rent Expense	-	7,122	(7,122)
Miscellaneous Expense	-	-	-
Permit Refunds	-	2,110	(2,110)
Insurance Expense	-	60	(60)
Total Expenditures	-	94,201	(94,201)
Excess of Revenues Over (Under) Expenditures	-	(1,281)	(1,281)
Fund Balance - April 1, 2004	8,853	8,853	-
Fund Balance - March 31, 2004	\$ 8,853	\$ 7,571	\$ (1,281)

The accompanying notes are an integral part of this financial statement.

SUPPLEMENTAL DATA

Management Letter

To the Authority Board
Township Code Authority of Midland County
Midland, Michigan

I have audited the financial statements of the Township Code Authority of Midland County, Midland County, Michigan, as of and for the year ended March 31, 2005, and have issued my report thereon dated June 24, 2005. As part of my audit, I made a study and evaluation of the Authority's system of internal accounting control to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist me in planning and performing this examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing general purpose financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily require estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

My audit of the financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the Authority's system of internal accounting control for the year ended March 31, 2005, that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed the following condition that I believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present organizational structure of the Authority there are restricted oversight capabilities related to transactions caused by an inadequate segregation of duties. This is due to the limited number of office personnel involved in the accounting function.

Such study and evaluation disclosed conditions that I believe to be material weaknesses for which corrective action by management is practicable in the circumstances as follows:

Budgeting

State law (MCL 141.421 et seq.) requires that local units of government adopt a budget and that expenditures not exceed budgeted amounts.

The Authority adopted a budget, but could not provide a copy of the budget at the time of the audit. It is imperative that the Authority not only adopt a budget but also compare budget to actual activity to ensure that actual expenditures do not exceed budgetary requirements. Amendments, when required, should also be made by the Board.

Monitoring Adherence to Department of Treasury Guidance

The Michigan Department of Treasury has recently issued an Accounting Procedures Manual for local units of government in the State. This manual provides guidance for implementing policies and procedures to ensure compliance with the Uniform Chart of Accounts and other issues. Additionally, this manual provides a list of reports that should be provided to the Board. The Authority apparently has not been receiving those reports on a monthly basis.

Bonding of all employees with access to Cash

The Authority has bonded the Treasurer and Office Professional, both of whom have access to Cash. Al Thompson, though, apparently has been allowed access to the Authority's Cash on hand and is not bonded by the Authority. Mr. Thompson is considered to be an independent contractor with the Authority, so the Board should review its bonding policy.

Management Letter – Page 3

Additionally, the following items were noted during the audit that the Authority should address:

Access to Company Information

It was noted during the audit that the Authority did not use a User Name and Password to lock out unauthorized access to the QuickBooks data file. While the Authority currently operates on the computer network for Midland County, there are potential opportunities for individuals to access the computer files located on Vicky Kraus' computer. The QuickBooks data file contains sensitive information such as employee Social Security numbers, and should be protected at all times.

I strongly encourage the Board to review its policies related to computer use and security to ensure that sensitive information is adequately protected.

Fixed Asset Policy

The Authority did not have a Fixed Asset Policy in place as of March 31, 2005. I have discussed this with Vicky so that the Authority can adopt a policy that will suit its needs.

Summary

The above items were considered as a part of my audit for the year ended March 31, 2005, and this report does not modify my report dated June 24, 2005 on such basic financial statements.

If I can be of any further assistance to you, please do not hesitate to contact me.

Dale L. Stanton
Certified Public Accountant

June 24, 2005